

## **FINANCE COMMITTEE**

### **Fiscal Year 2011**

The Finance Committee advises the Town on matters affecting Town finances and makes transfers from the Reserve Fund to cover extraordinary or unforeseen expenses. The primary focus of the Committee's responsibility and work consists of adopting guidelines for managing the Town's money and recommending a comprehensive budget consistent with those guidelines to the Annual Town Meeting. The Committee also recommends a course of action for any articles having financial implications that come before any Annual or Special Town Meeting.

The Finance Committee's recommended Preliminary Budget Guidelines are presented in the fall to the Town Manager, Superintendent of Schools, and Library Director to provide them with information on the level of resources that are expected to be available for spending on operating and capital budgets in the next fiscal year. This enables them to propose budgets in January for Finance Committee review. As it develops the Preliminary Budget Guidelines, the Committee considers the revenue that is expected from taxation, state aid including Chapter 70 education funds, and other sources. The Committee also considers the need to maintain appropriate levels of reserves in the form of Free Cash and the Stabilization Fund, projections for revenue and expenses in the next years, and longer-term financial demands on the Town. The guidelines are developed from the Finance Director's projections of revenues and spending for the previous, current and next three to five fiscal years.

Changes to the guidelines sometimes occur as new information about funding sources and service needs becomes available during the budget process. Such changes might be to the amount of available resources and/or particular needs to support municipal services, elementary schools, regional schools and library services. The Committee may change the proportion of the total going to these different sections of the overall Town operating budget.

The Committee obtains advice throughout the budget process from other boards and committees, staff, and the general public, including the Budget Coordinating Group and the Joint Capital Planning Committee. Two Finance Committee members are designated to serve on each of these other two committees and one member serves on the Audit Committee. Committee members also serve as liaisons to the Select Board, School Committees, and Library Trustees to facilitate a coordinated budget process and understand the unique challenges and needs of all Town programs and services.

#### **Fiscal year 2012 guidelines and budget**

The development of the FY 12 budget commenced in October 2010 with financial projections from Town Manager John Musante, who was also serving at that time as the Finance Director. Sanford Pooler became the Finance Director during the budget process. The Town Manager projected a deficit for FY 12 exceeding \$2.1 million. He assumed that the Town would tax to the full levy limit from the 2010 Proposition 2½ override, which was not done in FY 11, and that state aid would be reduced by 12.5% from FY 11. The Preliminary Guidelines asked for operating budgets from the Town Manager, for libraries, and for the elementary schools at current year (FY 11) levels. The guidelines asked for a regional school budget that would increase the Amherst assessment by 3% and proposed capital expenditures totaling 5.64% of

the property tax levy. When the Preliminary Guidelines were developed, the Committee projected that even with these austere budgets, that there would be a \$300,000 deficit.

The House and Senate leadership issued budget recommendations for aid to cities and towns just before the Committee completed its budget recommendation for Town Meeting. The proposed reduction was 3.5% from FY 11, less than the 12.5% reduction presumed in the Preliminary Guideline memorandum. After reviewing the initial proposed budgets, recommendations from the Budget Coordinating Group, and changes in revenue projections the Committee adopted a budget recommending a 1.8% increase for municipal services and the elementary schools, a 3.0% increase for the Regional School Assessment, and a 6.68% increase for Jones Library tax support.

### **Reserves**

The Town had been spending reserves to support operating budgets, in varying amounts, from FY 02 through FY 10. As the Committee developed a budget for FY 12, reserves represented roughly 7.5% of general fund operating revenues. The section of the Finance Committee's 2008 Financial Management Policies and Objectives regarding reserves states that "reserves, including the combined balance of Free Cash and Stabilization Fund, should be maintained at 5-15% of general fund operating revenues. The primary objective of the Town's reserve policy is to provide the Town the flexibility to sustain service levels despite the adverse financial impacts of economic downturns and unforeseen and extraordinary expenses." This goal is a widely accepted measure of good financial standing and a key factor in Amherst's bond rating. The Committee recommended that no reserves be used to support budgets in FY 12.

### **Reserve Fund transfers**

The Reserve Fund is used by the Finance Committee to cover extraordinary or unforeseen expenses of the Town. An amount is appropriated at each Annual Town Meeting for this purpose. Most years, including FY 10 and FY 11, the appropriation has been \$100,000. When the Committee met on July 8, 2010, its members voted to transfer \$60,328 from the FY 10 Reserve Fund to Community Services to cover Veterans' benefits. When the Committee met on July 12, 2011, its members voted to transfer \$15,000 from the FY 11 Reserve Fund to Conservation and Development to cover salaries. The remainder of the Reserve Funds closed to the Undesignated Fund Balance and became Free Cash.

### **Other Post-employment Benefits (OPEB)**

On October 14, 2010 the Finance Committee, in a meeting with the Select Board, School Committee, and Library Trustees received a report on the Town's obligation to present and future retirees to pay Other Post-Employment Benefits. Those benefits are other than pensions and is principally health care insurance for retirees and their families. The Town has been paying that obligation each year as it becomes due. The actuarial study presented to the Committee and other boards projected the future obligation which is expected to grow as more current employees retire and become unsustainable in the future. The actuarial consultant presented alternatives, including establishing and funding an OPEB Trust that could be invested so that the principal and earnings could pay these future expenses. The Committee recommended that the Fall 2010 Special Town Meeting establish a Trust, to be funded by actions of subsequent Town Meetings. The Town Meeting did so.

**Meetings**

The Committee held 23 meetings during the year including a combined meeting with the Select Board, School Committee and Jones Library Trustees, and meetings with the Amherst Select Board, Amherst School Committee and representatives from the other three Regional School District towns (Pelham, Leverett, and Shutesbury).

**Members of the Committee**

Members who served diligently and with great thoughtfulness were Andrew Steinberg (Chair), Kay Moran (Vice-Chair), Gary Abbott, Phillip Jackson, Janice Ratner, Bob Saul, Douglas Slaughter, and Marylou Theilman.

**Thanks**

This was another difficult year financially for the Town, and consequently the Committee required a great deal of staff support to gather information and to present it to Town Meeting. John Musante provided invaluable support as Town Manager and Finance Director. John and the staff of the Finance Department provided necessary information about the Town's financial history and current situation. Sandy Pooler began as Finance Director during the budget process and contributed knowledge, experience, perspective, analysis and advice. Together, Musante and Pooler offered their knowledge about state technical requirements, policies and politics. The staff of the Finance Department provided essential information. Maria Racca, Financial Analyst, organized information for us and also produced our reports, usually under acute deadline pressure. We rely on assistance of the Town Manager's office staff to help organize our operation. The Committee's review and evaluation of the various parts of the Town's budget depends on the assistance of the Town Manager, School Superintendent, Library Director and members of their staffs, along with department heads and other staff responsible for municipal services. Contributions of the Select Board, School Committee and Jones Library Trustees are essential to arriving at an acceptable budget to recommend to Town Meeting. We thank them all for their generous assistance.

We are committed to organizing and presenting financial information to Town Meeting members in order to assist them in carrying out their duty to determine spending policies and appropriate funding for Town, School, Library and Capital needs of the Town. We appreciate the comments and guidance they give us, both as individual members and as a group, the appropriating authority of the Town.

Andrew Steinberg, Chair